

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Commerce Committee

BILL: CS/SB 1472

INTRODUCER: Commerce Committee and Senator Detert

SUBJECT: Florida Research Commercialization Matching Grant Program

DATE: March 24, 2010

REVISED: _____

| | ANALYST | STAFF DIRECTOR | REFERENCE | ACTION |
|----|---------|----------------|-----------|---------------|
| 1. | Pugh | Cooper | CM | Fav/CS |
| 2. | | | TA | |
| 3. | | | WPSC | |
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I. Summary:

The federal government, through two research grant programs, provides funds for early-stage companies to further their research into potentially marketable technologies, when venture capital and other private investments are difficult to secure.

CS/SB 1472 creates the Florida Research Commercialization Matching Grant Program (grant program) to assist small or startup companies that take advantage of federal and state partnerships to accelerate their growth and market penetration. Program applicants must meet several criteria, such as having attracted funding from non-government sources.

The CS directs the Florida Institute for the Commercialization of Public Research (institute) to develop program policy, establish criteria for the grant awards, approve the awards, and review the grant program's progress and results. To be eligible for the grant program, a business must meet a number of requirements, including receipt of a Phase 1 federal research grant.

CS/SB 1472 specifies the maximum grant amount at \$250,000. The legislation does not include a state appropriation for the grant program. The grant program is repealed July 1, 2013, unless reviewed and reenacted by the Legislature prior to that date.

The CS creates s. 288.9552, F.S.

II. Present Situation:

Federal research grants for small businesses

The federal government has for many years recognized the benefits of early capitalization for

new businesses. The U.S. Small Business Administration Office of Technology administers the Small Business Innovation Research Program (SBIR)¹ and the Small Business Technology Transfer Program (STTR)² to encourage small businesses to explore their technology potential and provide the incentive to profit from its commercialization.³

The SBIR and the STTR target the entrepreneurial sector because that is where most innovation and innovators thrive. However, the risk and expense of conducting serious research and development efforts are often beyond the means of many small businesses. By reserving a specific percentage of federal research and development funds for small business, these programs protect the small business and enable it to compete on the same level as larger businesses. SBIR and STTR help finance the startup and development stages, and encourage the commercialization of the technology, product, or service, which, in turn, stimulates the U.S. economy. The only substantial difference between the programs is that the SBIR rewards for-profit businesses only, while nonprofit research institutions may qualify for a STTR grant.

Small businesses must meet certain eligibility criteria to participate in the SBIR and STTR program. The business must be American-owned and independently operated; must have a principal researcher employed by the business; and must not have more than 500 employees. Each year, the SBIR requires 11 federal departments and agencies,⁴ and the STTR requires five,⁵ to reserve a portion of their research and development funds for award to small businesses. These agencies designate research and development topics and accept proposals.

The programs consist of three phases. Following submission of proposals, agencies make SBIR and STTR awards based on small business qualification, degree of innovation, technical merit, and future market potential. Small businesses that receive awards then begin a three-phase program:

- Phase I is the startup phase. Awards of up to \$100,000 for approximately 6 months, to support exploration of the technical merit or feasibility of an idea or technology.
- Phase II awards of up to \$750,000, for as many as 2 years, to expand Phase I results. During this time, the research and development work is performed and the developer evaluates the commercialization potential. Only Phase I award winners are considered for Phase II.
- Phase III is the period during which Phase II innovation moves from the laboratory into the marketplace. No SBIR funds support this phase. The small business must find funding in the private sector or other non-SBIR/STTR federal agency funding.

¹ The SBIR program was created by the Small Business Innovation Development Act of 1982 (P.L. 97-219), and has been reauthorized several times.

² The STTR program was created by Title II of the Small Business Research and Development Enhancement Act of 1992 (P.L. 102-564), and has been reauthorized several times.

³ U.S. Small Business Administration website at: <http://www.sba.gov/aboutsba/sbaprograms/sbir/index.html>. programs have been funded by Congress through Continuing Resolutions (CR) since 2009, so this is likely one reason total awards have declined from \$2 billion in 2008 to \$173.3 million in 2009. The latest CR expires April 30, 2010. Substantive legislation related to extending the programs until 2023 (H.R. 2965/S.1233) is being considered by Congress.

⁴ U.S. Departments of: Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Transportation, the Environmental Protection Agency, the National Aeronautics and Space Administration, and the National Science Foundation.

⁵ U.S. Departments of: Defense, Energy, Health and Human Services, the National Aeronautics and Space Administration; and the National Science Foundation.

One recent report evaluating the successes of businesses that received SBIR or STTR grants indicated that 31 percent of SBIR recipients engaged in health-related research later received patents for their discoveries.⁶

In 2009, Florida companies received a total of 135 Phase I and/or Phase II SBIR or STTR awards totaling nearly \$36.4 million.⁷ Of that amount, 107 awards totaling nearly \$29.1 million were made by the U.S. Department of Defense.

Florida's totals are down over the previous 2 years, when Florida-based companies were awarded 171 SBIR or STTR grants in 2007 and 177 grants in 2008.⁸

California, Massachusetts, and Virginia finished 1-2-3 in both grant categories in 2009, when a total of \$1.3 billion in SBIR and STTR grants was awarded.⁹

Florida has no comparable state grant program. However, Enterprise Florida, Inc. (EFI), a public-private entity that serves as the state's business-recruitment entity, has implemented the "Phase 0" Program to assist eligible companies in developing their SBIR/STTR applications.¹⁰

Created in September 2006, the Phase 0 program is a partnership between EFI and technology incubators, University Technology Transfer Offices, economic development organizations, and Small Business Development Centers. Eligible applicants can receive a maximum of \$3,000, in two installments, as assistance. These funds can be used for such expenses as consulting fees supporting technology development, commercialization strategies or proposal review; legal or accounting fees; services of a professional for writing, word processing, and editorial review of the federal application; and travel expenses incurred to visit the federal agency or laboratory potentially sponsoring the technology.

In FY 2008-2009, EFI awarded 12 grants totaling nearly \$28,900; since its inception, EFI has awarded 37 grants totaling more than \$69,000.¹¹ Five of those companies have gone on to receive Phase 1 federal SBIR/STTR grants, and 5 others are awaiting word. It is too early in the process to determine if these companies will successfully commercialize their inventions.

EFI created the Phase 0 program to help improve the success rate of Florida-based companies in winning SBIR/STTR grants; in 2006, Florida ranked 45th in the nation in this category.

Also, the state in recent years has created several programs emphasizing the commercialization of new technologies and products, and nurturing emerging companies as they

⁶ "National Survey to Evaluate the NIH SBIR Program." National Institutes of Health Office of Intramural Research. Published January 23, 2009. Available online at: http://ftp.grants.nih.gov/grants/funding/sbir_2008surveyreport.pdf. Last visited February 12, 2010.

⁷ 2009 Florida awardees at http://web.sba.gov/tech-net/public/dsp_awardlist.cfm?RequestTimeout=600. State-by-state search engine at http://web.sba.gov/tech-net/public/dsp_search.cfm. Last visited February 12, 2010.

⁸ Ibid.

⁹ Fifty-state chart available at http://web.sba.gov/tech-net/public/dsp_awardlist.cfm?RequestTimeout=600. Last visited March 25, 2010.

¹⁰ More information available at <http://www.eflorida.com/ContentSubpage.aspx?id=872>. Last visited February 14, 2010.

¹¹ Email received from Peyton Woodard of Enterprise Florida, Inc., to Commerce Committee staff, received March 2, 2010.

move into the marketplace. Florida's initiatives include the Centers of Excellence established with state universities, the Florida Opportunity Fund, and Florida University Commercialization Grants.

The Florida Institute for the Commercialization of Public Research (institute)¹²

Created in 2007 with passage of the Florida Capital Formation Act,¹³ the not-for-profit institute operates as a clearinghouse for university and other public-funded research that is seeking investors to help finance for market a product or service.

Pursuant to s. 288.9628, F.S., the institute provides mentoring for young companies, develops marketing information and plans, and uses its resources and industry contacts to attract capital investment into the companies. The institute's other duties are to:

- Maintain a centralized location to showcase companies and their technologies and products;
- Develop an efficient process to inventory and publicize companies and products that have been accepted by the institute for assistance;
- Facilitate meetings between prospective investors and eligible organizations in the institute;
- Develop cooperative relationships with publicly supported organizations all of which work together to provide resources or special knowledge that is likely to be helpful to institute companies; and
- Find sources of "gap funding" for young companies, to bridge the gulf between research and development of a conceptual product to its marketability.

The institute is prohibited from developing or accruing any ownership, royalty, or other such rights over, or interest in, companies or products in the institute and shall maintain the secrecy of proprietary information. It also may not charge for services rendered to state universities and affiliated organizations, community colleges, or state agencies.

Conceived as a collaborative effort of the technology transfer offices of Florida's state universities, the institute is physically located at the Florida Atlantic University Research & Development Park. The institute receives operational support from The Enterprise Development Corp. of South Florida, and has received operating funds from the Legislature in the past.

III. Effect of Proposed Changes:

Section 1 creates s. 288.9552, F.S., the Florida Research Commercialization Matching Grant Program (grant program). The grant program's goals are to:

- Increase the amount of SBIR and STTR research funds received by Florida companies;
- Accelerate the entry of new technology-based products into the market;
- Create technology-based jobs for Floridians;
- Provide leveraged resources to grant applicants to attract more investment;
- Speed the commercialization of promising technologies;

¹² Institute website at <http://www.florida-institute.com>.

¹³ CS/CS/HB 83 (ch. 2007-189, L.O.F.).

- Encourage the establishment and growth of high-quality technology firms in Florida; and
- Accelerate venture-capital deal flow and enhance the state's investment infrastructure.

This section directs the institute to develop the grant program's policy goals and criteria; establish criteria for the grant awards, approve the awards; and review the program's progress and results. The advisory committee members will serve without compensation.

The institute must review and determine grant awards within 45 days of receiving applications. Also, beginning December 1, 2010, and every year thereafter, the institute will submit an annual report to the Governor, the President of the Senate, and the Speaker of the House of Representatives of the grant program's activities.

No more than 5 percent of any legislative appropriation to fund the grants may be used to pay the administrative costs associated with the program.

Grant applicants must meet all of the following criteria:

- Be a business entity that is registered with the Department of State.
- Must have its primary office and a majority of its employees domiciled in Florida, and conduct its principle research activities in Florida.
- Be a small company¹⁴ for which a state matching grant is necessary for project development and implementation.
- Must have received a Phase I SBIR or STTR grant and an invitation to apply for a federal Phase II award. Applicants who have already received a Phase II award may apply for a state grant, but they must identify the end date of the federal award and provide justification of how the state grant will enhance, and not supplant, the federal funds.
- Utilize all sources of federal, local, and private resources for the project to the maximum extent possible. No more than 25 percent of project funding may come from the new Florida program, and private sector investments should offset the total costs of the project.
- For projects receiving Florida grants, conduct project research in Florida.

The institute's duties as program administrator will include, but not be limited to:

- Establishing and coordinating the grant review, approval, and contracting activities;
- Administering the grant-selection process, such as issuing open-call requests for applications and processing grant applications;
- Serving as grant contract manager;
- Reporting on the program's progress and results; and
- Establishing a mechanism by which information about companies receiving the grants is disseminated to angel, seed, or venture capital investors.

The maximum, one-time award amount is set at \$250,000.

¹⁴ CS/SB 1472 does not define "small company." Unless otherwise specified, the SBA definition of "small business" would apply. SBA has established two widely used size standards: no more than 500 employees for most manufacturing and mining industries, and \$7 million in average annual receipts for most nonmanufacturing industries. While there are many exceptions, these are the primary size standards by industry. See: http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_sstd_tablepdf.pdf.

Section 2 provides that CS/SB 1472 shall take effect upon becoming law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

The impact on eligible young companies is indeterminate, but likely positive. Companies that have received federal funding through the SBIR or STTR would be eligible for grants through this state program.

C. Government Sector Impact:

None in CS/SB 1472. However, CS/SB 1752 includes \$10 million in nonrecurring state general revenue for the grant program.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Additional Information:

A. Committee Substitute – Statement of Substantial Changes:

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

CS by the Commerce Committee on March 25, 2010:

- Requires the Institute for the Commercialization of Public Research, rather than Enterprise Florida, Inc., to review and award grants to eligible businesses, and to submit an annual report on the program's activities to the Governor and the Legislature.
- Reduces from 10 percent to 5 percent the amount of any legislative appropriation for the grant program that may be used to cover the institute's administrative expenses.
- Removes the requirement that the Office of Program Policy Analysis and Government Accountability conduct a study on the grant program prior to the 2013 legislative session. This provision is, however, in CS/SB 1752.
- Removes provision creating state appropriations in the amount of \$4 million each in FY 10-11, FY 11-12, and FY 12-13.
- Sunsets the program July 1, 2013, unless it is reviewed and reenacted by the Legislature.

B. Amendments:

None.